

	A	B	D
1			
2	Changing Payment Service Providers		
3	General		
4	INTRODUCTION AND PURPOSE		
5	Planning	Completed	Comments
6	1. Develop a list of the services, the volume of activity processed via those services, and the level member support currently being provided by the corporate credit union(s).		
7	2. Obtain a detailed description of the services provided by the corporate credit union(s).		
8	3. Determine whether the corporate's services or a third party relationship(s) compliment the credit union's overall mission and philosophy.		
9	Risk Assessment	Completed	Comments
10	1. Conduct an appropriate risk assessment to determine the exposure related to corporate provided services versus exposure related to third party relationship(s). The risk assessment should address, but not limited, to the following areas:		
11	(a) Risk areas that could be affected by changing from a corporate credit union to a external third party arrangement (e.g., credit, liquidity, transaction, compliance, strategic, and reputation risks);		
12	(b) Expectations of third party relationship;		
13	(c) Staff expertise;		
14	(d) Criticality of the activity;		
15	(e) Cost/benefit analysis;		
16	(f) Impact on membership; and		
17	(g) Exit strategy.		
18	Strategic Business Plan	Completed	Comments
19	1. Determine whether the corporate credit union's payment systems activities or third party's proposed payment system activities are consistent with your credit union's overall business strategy and risk tolerances. Risk tolerances should be defined in credit union policy.		
20	On-Going Monitoring	Completed	Comments
21	1. Evaluate the costs of monitoring a corporate credit union(s) versus a third party program (i.e., staffing, capital expenditures, communications, and technological investment).		

	A	B	D
2	Changing Payment Service Providers		
3	General		
22	Comparison Analysis	Completed	Comments
23	1. Compare the corporate services against a third part(ies) services before entering into a relationship. A side by side comparison or similar format should consider, but not be limited to the following:		
24	(a) Detailed list of services provided;		
25	(b) Pricing structure to include future pricing increases;		
26	(c) Back office processing and support;		
27	Comparison Analysis (continued)	Completed	Comments
28	(d) Member support and response times;		
29	(e) Key contract and/or agreements provisions (liability, termination, renewal, loss sharing, etc.) and any specially negotiated provisions;		
30	(f) Infrastructure requirements (hardware, software, telecommunications, etc.);		
31	(g) Adjustment and/or charge-back assistance;		
32	(h) Analysis of insurance coverage and any changes that may be necessary to the credit union's own coverage limits as well as the associated cost; and		
33	(i) Analysis of termination of services and the effects on your credit union's financial position and reputation if services are abruptly discontinued.		

Cell: A4

Comment: Introduction and Purpose

Payment systems are critical in building and maintaining strong relationships with your members. Therefore, your credit union must consider all aspects in selecting a payment systems provider. This checklist provides one of the tools you can use in the selection process.

An inadequate selection process may result in unanticipated costs, legal disputes, reputation damage, and financial loss. Therefore, your credit union must exercise due diligence in the selection process.

Cell: A6

Comment: Third-party service providers typically structure pricing based on the volume of activity or processing. Low volumes of activity may make utilizing a new third-party processor cost prohibitive and in some cases, vendors may not want to acquire clients with low volumes.

Cell: A7

Comment: This information can be obtained by evaluating the contract terms and/or talking with representatives from the corporate credit union.

Cell: A8

Comment: Your credit union should provide rationale for choosing a third party payment systems provider. Reasons may include costs, inexperience, or lack of technology. However, outsourcing does not absolve the credit union from properly overseeing the duties performed by the third party.

Cell: A10

Comment: To set up an effective program, your credit union should assess third party relationship exposure. Depending on the complexity of credit union operations, the risk assessment may be a separate written document or a discussion noted in the minutes of the board of directors. The risk assessment should be periodically reviewed and updated, particularly when new products, services, members and geographic locations are added.

Cell: A13

Comment: Your credit union staff must be qualified to manage and monitor the third party relationship. The degree of qualification depends on the reliance to the third party.

Cell: A15

Comment: Your credit union should thoroughly investigate the stated costs, as well as any "hidden" costs it would bear internally if the decision to change from a corporate credit union provided payment services. The "hidden" cost may include additional personnel in order to handle the activities previously performed by the corporate credit union.

Cell: A17

Comment: Your credit union should determine an alternate course of action in case the third party is not able to satisfactorily perform its responsibilities. For payment systems, your members could face significantly hardship; whereas, your credit union could face significant reputation and legal risks.

Cell: A19

Comment: One of the main risks is the discontinuance of the payment service(s). Management must weigh that scenario against risk tolerances.

Cell: A21

Comment: When evaluating the cost of outsourcing, your credit union should include costs that it will bear to meet its obligations or foster the relationship. This may include staffing costs associated with monitoring the third party's operations, insurance costs and other costs passed on to your credit union because they are not covered under the base fee, investments in technology, and additional fees for optional services.

Cell: A23

Comment: Your credit union should use a side by side comparison in order to determine the true cost of the services. Often, a corporate credit union will provide a service free of charge; whereas, a third party may charge a fee for that particular service or require additional manpower at your credit union.

Cell: A32

Comment: Insurance coverage is a key consideration, particularly from a fraud loss perspective for wires, ACH, item processing and plastic cards.

Cell: A33

Comment: NCUA does not have regulatory authority over third parties. Therefore, your credit union's payment services could abruptly end. Strong due diligence over a third party is the main deterrent in this situation.

	A	B	D
2	Changing Payment Service Providers		
3	Due Diligence - Third Party Providers		
4	INTRODUCTION AND PURPOSE		
5	Background Check	Completed	Comments
6	1. Contact referrals from the prospective third party clients that are similar in size, services, and your credit union's level of payment systems expertise in order to determine their satisfaction and experience with the third party arrangement, including customer support service.		
7	2. Determine whether there are any lawsuits and/or legal proceedings involving the third party or its principals that might affect your use of the service provider or its future going concern.		
8	3. Consider other sources of information such as the Better Business Bureau, credit reporting agencies, Dunn & Bradstreet, state consumer affairs offices, or state attorney general offices before selecting a third party service provider.		
9	Financial and Operational Control Review	Completed	Comments
10	1. Analyze the third party's financial statements and its closely related affiliates to determine whether these statements provide reasonable assurance that the third party has the ability to fulfill the contractual commitments.		
11	2. Review any audits or engagements (e.g., SAS 70 Reports) performed by a reputable party that involves financial or operational controls.		
12	3. Evaluate other available sources in determining the overall financial health of the prospective third party (e.g., trade journals).		
13	Contract Issues and Legal Review	Completed	Comments
14	1. Ensure that your credit union's third party contract(s) address the following areas:		
15	(a) Scope of the arrangement, services offered, and activities authorized;		
16	(b) Responsibilities of all parties (including subcontractor oversight);		
17	(c) Service level agreements addressing performance standards and measures;		
18	(d) Performance reports and frequency of reporting;		
19	(e) Penalties for lack of performance;		
20	(f) Ownership, control, maintenance and access to financial and operating records;		
21	(g) Ownership of servicing rights;		
22	(h) Audit rights and requirements (including responsibility for payment);		
23	(i) Data security and member confidentiality (including testing and audit);		
24	(j) Business resumption or contingency planning;		
25	(k) Evidence of current insurance coverage, including fidelity and errors and omission coverage;		

	A	B	D
2	Changing Payment Service Providers		
3	Due Diligence - Third Party Providers		
26	Contract Issues and Legal Review (cont'd)	Completed	Comments
27	(l) Member complaints and member service;		
28	(m) Compliance with regulatory requirements (i.e., Gramm-Leach-Bliley Act (GLBA), Privacy, BSA, etc.);		
29	(n) Dispute resolution;		
30	(o) Default, termination, and escape clauses;		
31	(p) contract modifications;		
32	(q) source code being maintained in escrow;		
33	(r) pricing;		
34	(s) indemnification;		
35	(t) limitation of liability;		
36	(u) contract duration;		
37	(v) controls; and		
38	(w) financial and control requirements.		
39	2. Enlist an independent legal opinion about any contract/ services provided by a third party.		
40	3. Ensure the third party has appropriate and sufficient insurance coverage for the types of payment system services it offers.		
41	Business Model	Completed	Comments
42	1. Understand the third party's business model and operations (e.g., settlement) in comparison to a corporate credit union's business model and operations.		
43	2. Inquire about the third party's sources of income and determine any income dependencies that would threaten continued operation.		
44	Policies	Completed	Comments
45	1. Ensure that the third party's proposed payment system activities are consistent with your credit union's internal policies and procedures (e.g., risk management parameters, vendor management, payment systems, etc.).		
46	Accounting Considerations	Completed	Comments
47	1. Determine whether your credit union has an adequate knowledge base and accounting infrastructure to appropriately track, identify, and classify transactions through the format received from a third party.		
48	Risk Measurement, Monitoring and Control	Completed	Comments
49	1. Ensure third party reports contains sufficient information to properly monitor the activities, provide senior management or board of directors sufficient oversight, and receive in a timely manner to meet your credit union's needs.		
50	2. Ensure that the credit union's infrastructure (staffing, equipment, technology, etc.) is able to sufficiently monitor a third party arrangement.		

	A	B	D
2	Changing Payment Service Providers		
3	Due Diligence - Third Party Providers		
51	Information Security/ Systems	Completed	Comments
52	1. Determine your credit union's communication method with the third party (e.g., VPN, encryption).		
53	2. Determine whether the service provider supports multifactor authentication for high-risk financial transactions.		
54	3. Determine whether the third party is using leading edge technologies or only mature technologies.		
55	4. Inquire whether there is adequate capacity for current and planned transaction volumes.		
56	5. Research whether the third parties are considered to be industry-recognized leaders.		
57	6. Determine whether the service level agreements correspond to your credit union's expectations (e.g., "up" time).		
58	7. Review any third party information audits/ reports that may detect any information security concerns (e.g., SAS 70, Penetration Reports etc.)		
59	Contingency Plans	Completed	Comments
60	1. Review third party's contingency policy/ plans to ensure continued operations in the event of a disruption.		
61	2. Ensure that the third party's contingency plans contain periodic testing by your credit union in conjunction with the third party testing.		

Cell: A4

Comment: Introduction and Purpose

Payment systems are critical in building and maintaining strong relationships with your members. Therefore, your credit union must consider all aspects in selecting a payment systems provider. This checklist provides one of the tools you can use in the selection process.

An inadequate selection process may result in unanticipated costs, legal disputes, reputation damage, and financial loss. Therefore, your credit union must exercise due diligence in the selection process.

Cell: A7

Comment: A third party management attestation letter that outlines any lawsuits or legal proceedings would suffice.

Cell: A10

Comment: Credit unions should carefully review the financial condition of third parties and their closely related affiliates. Credit unions should consider the financial statements with regard to outstanding commitments, capital strength, liquidity, and operating results. Additionally, credit unions should consider any potential off-balance sheet liabilities and the feasibility that the third party or its affiliated parties can financially perform on such commitments.

Cell: A11

Comment: Audited financial statements may be useful in periodically evaluating the overall financial health of a prospective or existing third party. If available, officials may use copies of SAS 70 (Type II) reports prepared by an independent auditor, audit results, or regulatory reports to evaluate the adequacy of the proposed vendor's internal controls. If these items are not available, credit unions should consider whether to require an independent review of the proposed vendor's internal controls. Generally, contracts establish requirements for periodic audits or access to third party records.

Cell: A14

Comment: If it is an overly complex service, consider including a "proof of concept" and related exit clause which would allow the credit union to "test" the suitability of the service while not permanently tying the credit union's hands to a particular vendor who might not be the best fit.

As with all contracts, ensure that a legal review is performed prior to entering into the contract.

Cell: A25

Comment: Insurance coverage, including fidelity and errors and omission coverage, should be carried by third parties providing services to a credit union. It should also cover subcontractors, if applicable. Coverage amounts should be sufficient to mitigate risk associated with the services provided by the third party. The credit union should establish a process to confirm the continued maintenance of insurance coverage on a regular basis.

Cell: A30

Comment: Your credit union should be aware of each party's contractual obligations and how your credit union may terminate the contract if the performance expectations or contract obligations are not met. Your credit

unions should exercise its right to negotiate contract terms with third parties for mutually beneficial contracts. Credit union officials should ensure that any contract terms agreed too would not adversely affect the credit union's safety and soundness, regardless of contract performance.

Cell: A39

Comment: As with any third party relationship, your credit union must understand its rights, responsibilities, and liability under any executed agreement. A legal review can also assist your credit union in changing language unfairly biased in the third party's favor. The legal review should be performed and documented by a party familiar with contract law prior to the credit union signing any contracts. Lack of a formally documented legal review of financially significant contracts indicates a deficiency in your credit union's due diligence review.

Cell: A42

Comment: The third party's business model is simply the conceptual architecture or business logic employed to provide services to its clients. If the third party's business and marketing plans are available, officials should review them. Credit union officials should also understand and be able to explain the third party's role in the proposed arrangement and any processes for which the third party is responsible.

Cell: A43

Comment: If a third party's revenue stream is tied significantly to one or two customers, the third party would face financial hardship if one of these customers switched to a different vendor. In other words, your credit union may need to change its vendor immediately if the third party files bankruptcy. The vendor may not provide this information; however, it is a worthy question.

Cell: A45

Comment: Your credit union's policies and procedures will probably need to be revised if a third party is selected. You may inquire whether the third party will help in this endeavor.

Cell: A49

Comment: Credit unions must be able to measure the risks of third party programs, but also the performance of third parties in terms of profitability, benefit, and service delivery. Your credit union must monitor the performance of the third party relationship to determine compliance with expectations and contractual agreements. If deficiencies in performance are noted, a process to notify the third party of inadequate performance and to request corrective action should be implemented.

Cell: A50

Comment: Failure to monitor the third party can lead to significant risk, losses and breach of contract. Appropriate staff should be assigned to monitor performance of the service and compliance with the terms of the contract.

Designated credit union staff should be qualified and responsible for continued monitoring and oversight of third party arrangements, exhibiting familiarity with and understanding of the reports available from the third party. Responsible staff should measure the performance of third party programs in relation to credit

union policy guidance, contractual commitments, and service levels. Credit unions should implement quality control procedures to review the performance of third parties periodically. Credit union officials should receive periodic reports on the performance of all material third party programs.

In many cases, credit unions outsource processes or functions due to a lack of internal infrastructure or experience. However, outsourcing processes or functions does not eliminate credit union responsibility for the safety and soundness of those processes and functions.

Cell: A52

Comment: Credit unions should ensure all member data transmitted between themselves and the third party are transmitted in a secure manner (secure FTP, encrypted email, secure fax, via encrypted tapes, VPN with secured files, etc). Credit unions should also have procedures in place in order to communicate securely with third parties. PGP, encrypted Zip files, logging into a secure server using a VPN are examples of methods to communicate securely.

Cell: A54

Comment: Your credit union should realize that vulnerabilities associated with leading edge technologies may be exploited in the future as they are identified. Hence, these exploitations could lead to disruptions.

	A	B	D
1			
2	Changing Payment Service Providers		
3	Special Considerations		
4	INTRODUCTION AND PURPOSE		
5	ACH - Special Considerations	Completed	Comments
6	1. Determine that the third party complies with and processes ACH transactions according to NACHA rules and Federal Reserve Bank operating circular requirements.		
7	2. Verify the third party's completion of the annual audit of Automated Clearing House (ACH) rules compliance.		
8	Item Processing - Special Considerations	Completed	Comments
9	1. Evaluate whether your credit union would need to reissue checks (i.e., drafts) to its membership if you change payments systems processors.		
10	2. Investigate whether the third party is using duplicate detection software.		
11	3. Determine whether your credit union's data-processing system's automated reconciliation (i.e., corporate checks) feature is compatible with the third party.		
12	4. Determine whether the vendor uses or offers a commercially reasonable fraudulent transaction detection systems.		
13	5. Evaluate whether your checks are truncated and the third party's ability to provide photocopies or hard copies upon request, as well as the cost involved in requesting this information.		
14	6. Investigate whether the third party can process foreign checks, the cost, and their settlement procedures for foreign checks.		
15	7. Determine whether the third party offers remote deposit solutions that you currently offer or might offer in the future (e.g., Branch Capture, Teller Capture, Business (Merchant) Capture, Member (Consumer) Capture and ATM Capture).		
16	8. Evaluate the cost of processing items that cannot be imaged by the third party in comparison to a corporate credit union performing the same service.		
17	9. Determine who communicates with the Federal Reserve Bank or the check clearing agent to handle problem resolutions (e.g., adjustments).		
18	10. Determine whether training is performed in-house or at a external location, as well as the cost of the training.		
19	11. Determine who notifies the bank of first deposit on your credit union's behalf for large dollar returns, within the deadlines specified by Regulation J.		

	A	B	D
3	Special Considerations		
20	Card Services - Special Considerations	Completed	Comments
21	1. Evaluate whether your credit union would need to reissue credit cards, ATM cards, debit cards, etc. if you change payments system processors and the potential costs associated with this change.		
22	Card Services - Special Considerations (cont'd)	Completed	Comments
23	2. Determine whether a change in card processors would result in network access interruptions.		
24	3. Determine whether the third party uses a Neural Network fraud detection system.		
25	4. Determine whether the third party offers daily reconciliation / monthly statistical reports and whether these reports are sufficient for your needs.		
26	5. Evaluate how the third party issues PINs to your members, if applicable.		
27	Coin & Currency - Special Considerations	Completed	Comments
28	1. Determine the ease of establishing coin and currency deliveries, the delivery timeframes, and the fees charged by a third party in relationship to a corporate credit union.		
29	2. Evaluate whether the third party will convert foreign currency. If so, the third party procedures/ requirements (e.g., contracts, compensating balances) needs to be evaluated.		
30	Wire Transfers - Special Considerations	Completed	Comments
31	1. Determine if the third party will initiate both domestic and international wires.		
32	2. Determine whether the third party's wire transfer system can be integrated with the credit union's system for automation of transactions		
33	3. Determine staff processing limits and software security control settings needed to reduce risks associated with origination of fraudulent transactions.		

Cell: A4

Comment: Introduction and Purpose

Different payment services (ACH, item processing, etc.) have their own unique considerations. This checklist is intended to highlight some of the most critical issues that management should consider when evaluating alternative services providers for these services.

Cell: A7

Comment: This audit can be completed internally by the potential vendor or by an outside party.

Cell: A9

Comment: Credit unions may be using the corporate credit union's routing number, rather than an individualized routing number. The magnetic ink character recognition (MICR) line at the bottom of the check contains the routing number. If your credit union is currently using the corporate credit union's routing number and you change payment systems processors, your membership would need new checks (drafts).

Cell: A10

Comment: Duplicate detection software prevents the same check from being presented more than once, saving you time and reducing member complaints. Duplication detection systems should be applied to both member share draft inclearings as well as forward presentment checks submitted for payment. Furthermore, Reg CC may require duplicate detection software in the impending revision to this regulation.

Cell: A14

Comment: Your credit union could receive provisional credit or credit when the paying bank actually pays the check.

Cell: A15

Comment: Your credit union should evaluate whether the third party offers services that compliment these services (e.g., Image Deposit Return, Duplicate Detection).

Cell: A19

Comment: Regulation J requires the Bank of First Deposit to be notified for any returns in the amount of \$2,500 or more.

Cell: A21

Comment: For example, the first 6 digits of a credit card number are known as the Issuer Identification Number (IIN) or bank identification number (BIN). These numbers identify the institution that issues the card to the card holder. In certain cases, your credit union may be using the corporate credit union's IIN or BIN. Therefore, you would need to acquire your own IIN or BIN and reissue plastic cards or find a vendor with a new shared IIN/BIN and reissue cards under the new vendor's program.

Cell: A24

Comment: A neural network fraud detection system is an advanced fraud detection tool using sophisticated software. The fraud detection software is used to evaluate debit and credit card transactions based on known fraud statistics, evaluate a users "normal" banking activity, and flag potential fraudulent transactions for additional verification or review.

Cell: A31

Comment: Some providers will only initiate domestic wire transfers. If this is the case, then a separate contract may be required with another entity for foreign wire transactions.